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Wage Talks Begin In Earnest

Although a new player is taking part in this year's shunto, or spring wage offensive, labor's ritual demands and management's familiar responses are identical to earlier years. The major labor unions hope to win wage hikes of 5 to 7 percent. Management, on the other hand, argues that international competitive pressures make any increase other than the ordinary adjustment for inflation impossible.

Since the late 1950s the shunto process has been seen as an effective way to maximize labor's strength. Coordinating individual unions (which are company-specific) and labor associations to demonstrate and handle negotiations and strikes countered management's strong position (see JEI Report No. 2A, January 15, 1988). Traditionally, the unions announced their demands in December

Although the Japanese economy is humming along, most observers expect management to successfully hold the line on wage increases again this year. While Tokyo is concerned that this might endanger the healthy consumer spending that is vital to its economic restructuring plans, the Ministry of Labor has proved unable to influence management in past shuntos.

Jon Choy

High Yen Hurts Japanese Competitiveness In High Technology

In a reversal of recent trends, a report by the Japan Development Bank, a government-affiliated financial institution, suggests that the United States has increased its ability to compete with Japan in high technology products as a result of the doubling in the yen's value since 1985. While American technology in many industries equals or betters Japan's, the strength of the dollar in the first half of the 1980s made it difficult for U.S. manufacturers to match Japanese prices. But at the current exchange rate of about 130 yen to the dollar, the two countries are roughly competitive, and at 120 yen to the dollar, a level reached earlier this year, the United States would have a slight lead.

High technology goods were defined using the Commerce Department definition of products whose direct and indirect research and development costs exceed 5 percent of the sale price. Using an exchange rate of Y140=$1.00, output in Japan totaled $282 billion in 1985 and $432 billion in the United States. The study found that high technology employment and output were increasing rapidly in both countries over the 1977-85 period while other manufacturing employment was declining. High technology industries were increasing their share of total manufacturing employment and output faster in the United States.

The recent increase in U.S. competitiveness reversed several years of deterioration caused by a strong dollar and a widening gap in high technology unit labor costs. Taking 1977 as the base, these costs in the United States had risen 30 percent by 1985, while dropping 28 percent in Japan. However, the trend of unit labor costs in both countries was much more favorable in high technology fields than in other areas of manufacturing, although the difference was more pronounced in the United States. This suggests that, with the right exchange rate, high technology industries have more potential to expand net exports than do other U.S. industries.

Because unit labor costs were generally falling in Japan and rising in the United States in the first half of the 1980s, an average exchange rate of about Y148=$1.00 would have been necessary for competitive equality in 1985 when the actual exchange rate was about Y239=$1.00. As a result, Japan's trade surplus in this sector widened, reaching a level of $8.9 billion with the United States in 1985 (see Table). Recently the equilibrium rate by the bank's reckoning has moved toward Y130=$1.00. If the yen appreciates, the U.S. competitive position would be enhanced.

Douglas Ostrom

Japan-U.S. Trade in High Technology Products

(in millions of dollars)

	1980	1984	1985	1986
Japan's exports	$6,087	$15,921	$16,413	$20,607
Japan's imports	4,549	7,263	7,467	7,867
Bilateral balance	1,538	8,658	8,946	12,740
Reference:				
Japan's global balance in high technology	17,326	29,851	31,408	40,455
U.S. global balance in high technology	26,697	6,046	3,647	-2,590

Note: For both countries, imports are valued c.i.f. Japanese export figures are f.o.b., while the U.S. export numbers are f.a.s.

Source: Japan Tariff Association, Japan Exports and Imports; U.S. Department of Commerce.

Tensions Mount Over Japan-South Africa Trade

Congressional discontent over U.S.-Japan trade disputes has crystallized into yet another area of complaint: Japan's trade with South Africa. There has been some publicity recently concerning the fact that in 1986 Japan replaced the United States as South Africa's largest trading partner. That the dollar value of two-way trade soared again in 1987 to $4.3 billion (see Table 1) -- a 19.3 percent increase -- has only served to highlight the issue.

Table 1: Japan's Trade with South Africa in Dollar Terms, 1982-87

(in millions of dollars)

	1982	1983	1984	1985	1986	1987
Exports	$1,654.7	$1,738.0	$1,839.9	$1,019.9	$1,355.2	$1,862.5
Imports	1,840.2	1,587.3	1,610.6	1,843.9	2,228.7	2,412.3
Trade balance	-185.5	150.7	229.3	-824.0	-873.5	-549.8
Total trade	3,494.9	3,325.3	3,450.5	2,863.8	3,583.9	4,274.8
Percent change	--	-4.9%	3.8%	-17.0%	25.1%	19.3%

Source: Japan Tariff Association, The Summary Report: Trade of Japan

Several legislators as well as the Congressional Black Caucus have criticized Japan's trade relations with South Africa, claiming that it is undermining U.S. attempts to change Pretoria's apartheid policy through the imposition of economic sanctions. Consequently, rumors of retaliatory legislation have been receiving more and more attention on Capitol Hill recently. Indeed, legislators have already paved the way for punitive action. When Congress approved an anti-apartheid sanctions package in 1986, it provided for retaliation against any country that benefited from the sanctions by taking up where U.S. industry left off. The provision has not yet been invoked, but some lawmakers are reportedly considering the possibility of attaching Japan-specific punitive measures based on the clause to HR 3, the trade bill now pending in a House-Senate conference committee.

Congressional spokesmen may be overstating their case, however. Although the dollar value of Japan's trade with South Africa skyrocketed during the past two years, most of the increase was the result of the appreciation of the yen. In yen terms trade actually decreased substantially in three of the last five years; in 1987 it did increase -- but only by a slight 2.1 percent (see Table 2).

Table 2: Japan's Trade with South Africa in Yen Terms, 1982-87

(in billions of yen)

	1982	1983	1984	1985	1986	1987
Exports	Y408.5	Y413.3	Y434.4	Y244.6	Y228.4	Y269.1
Imports	455.8	377.0	381.6	441.9	378.7	350.7
Trade balance	-47.3	36.3	52.8	-197.3	-150.3	-81.6
Total trade	864.3	790.3	816.0	686.5	607.1	619.8
Percent change	--	-8.6%	3.3%	-15.9%	-11.6%	2.1%

Source: Japan Tariff Association, The Summary Report: Trade of Japan

Nonetheless, several publications have reported that Ministry of Foreign Affairs officials are uncomfortable with the figures -- even more so in light of the attention focused on the issue in Washington. Business Week quoted one ministry official as saying "These figures seriously embarrass me. We've put pressure on companies to decrease trade, but the final decision is up to them." Japan imports a variety of industrial and agricultural inputs from South Africa, including platinum, chrome, asbestos, manganese, vanadium, coal and corn. It is an important supplier to that country as well, selling primarily cars and electronic equipment. Foreign Minister Sosuke Uno has publicly requested businesses to exercise more self-restraint in trading with South Africa, as have the Ministry of International Trade and Industry and the Federation of Economic Organizations (Keidanren).

And in fact, Tokyo has approved a series of measures to protest apartheid. Relations between the two countries exist only at the consular level. The government has banned direct foreign investment in South Africa, forbidden

the export of computers to government agencies, ended purchases of the Krugerrand gold coin, and refused to participate in athletic, cultural or educational exchanges with that country. Tokyo also has a scholarship program for black South African students, and has instructed Japanese firms with operations in the region to give black employees the same working conditions as whites.

In September 1986 the government added additional sanctions to the list. It banned future steel purchases from South Africa, suspended tourist visas for South Africans, moved to limit Japanese tourism in South Africa and prohibited the use of South African Airways' international flights by Japanese government employees. Reciprocal landing rights between the two countries were also officially suspended, although this was largely a symbolic gesture since there had been no chartered flights between the two countries in some 20 years nor any agreement on scheduled service.

Critics are far from satisfied, however, claiming that the private sector can easily circumvent the ban on foreign investment by using third-country intermediaries. Allegations that the ban on computer sales has been ineffective have also appeared. What could be more damaging to U.S.-Japan relations, though, is the more general perception that Japan has benefited economically from U.S. policy toward South Africa. It would take just a small congressional step to translate this perception into a retaliatory amendment to HR 3.

Eileen M. Doherty

Interim Agreement Reached On Bilateral Science And Technology Pact

On February 1 Japan and the United States agreed in eleventh-hour discussions to extend their Science and Technology Agreement until the end of March as a stop-gap measure. Negotiators still appear far apart on key points concerning reciprocal participation in government-funded research and development programs, but to avoid interrupting existing joint research, both countries decided that it was in their mutual interest to maintain the existing accord temporarily -- however outdated and inadequate it has become -- rather than allow it to lapse on January 31.

From the U.S. viewpoint, the 1980 accord is so vague that it has enabled Japan to easily exploit American university R&D programs in leading-edge technologies, while at the same time severely restricting U.S. participation in many Japanese industrial efforts. This, in turn, has allowed Japan to improve its competitive position in certain industries at the United States' expense, the argument goes.

Last fall the late Commerce Secretary Malcolm Baldrige raised this issue at the cabinet-level Economic Policy Council and urged that the one-way relationship be rectified through negotiations to renew the accord. This more detailed agreement would not only set the stage for future cooperative research in specific emerging industries, such as advanced materials, biotechnology and superconductivity, but more importantly, establish a new comprehensive policy framework -- or "umbrella" -- for overall science and technology relations between the two countries. This was viewed as particularly important and timely in view of Japan's planned participation in research related to the Strategic